

**CITY OF SANTA CLARA**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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**CITY OF SANTA CLARA**  
**SINGLE AUDIT REPORT**  
**For The Year Ended June 30, 2013**

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CITY OF SANTA CLARA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2013

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?            Yes       X       No
- Significant deficiency(ies) identified?            Yes       X       None Reported

Noncompliance material to financial statements noted?            Yes       X       No

Federal Awards

Type of auditor’s report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weakness(es) identified?            Yes       X       No
- Significant deficiency(ies) identified?       X       Yes            None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?       X       Yes            No

Identification of major programs:

| <u>CFDA#(s)</u> | <u>Name of Federal Program or Cluster</u>                          |
|-----------------|--|
| <u>14.218</u>   | <u>Community Development Block Grant/Entitlement Grant Program</u> |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?       X       Yes            No

## SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated November 5, 2013 which is an integral part of our audits and should be read in conjunction with this report.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings required to be reported in accordance with section 510(a) of OMB Circular A-133.

### **Finding SA2013-01      Unsecured Housing Rehabilitation Loans**

**CFDA Number:**            14.218  
**CFDA Title:**              Community Development Block Grants/Entitlement Grants  
**Federal Agency:**        Department of Housing and Urban Development

**Criteria:** The OMB Circular A-133 Agency Program Requirements for this program stipulates that grantees should have loan origination and servicing systems in place which assures that loans are properly authorized and receivables are properly established. In particular, housing rehabilitation loans that are not forgivable should be secured timely to ensure repayment of the principal along with any earned interest.

**Condition:** The City made 13 CDBG funded loans in current year. We tested 4 loans receivable and noted the following conditions which indicate that the loans were not properly secured:

- One loan was approved for \$25,000. Total actual loan funded amounted to \$24,785. However, the promissory note and the recorded deed of trust amounts were only \$18,000. An additional \$6,875 promissory note and deed of trust was not but should be recorded with the County.
- Another loan was approved for \$23,000. Total actual loan funded was \$19,326. However, the Promissory Note and the Deed of Trust amount were only \$1,300. An additional \$18,026 of promissory note and deed of trust was not but should be recorded with the County.

**Effect:** For the conditions noted above, the City was not in compliance with the CDBG program requirements specified in OMB Circular A-133. CDBG funded housing rehabilitation loans are non-forgivable loans with payments deferred for 20 years. Without the recorded promissory note and deed of trust for the full amount of the loans funded, the City is subject to increased risk of not being able to collect the full amounts of loans funded by the program.

**Cause:** According to the City staff, under normal procedures, loans were initially approved for the lower amount which was later increased depending on needs. The City would normally file an addendum to the promissory note after the loan is fully disbursed for the actual loan amount funded. However addendums were not properly executed and recorded timely due to City staffing change.

**Recommendation:** We recommend that all CDBG funded loans be reviewed to ascertain that the related promissory notes and deeds of trusts are properly executed and recorded with the County timely.

**View of Responsible Officials and Planned Corrective Actions (prepared by Management):**

- **Name of contact person:** Kevin Riley, Director of Planning and Inspection
- **Corrective action:** An unexpected staff transition during the year resulted in a short-term work overload. A decision was made to delay the recording of the amendments to the original Promissory Note and Deed of Trust until year-end procedures were completed.

The City has taken steps both to correct the problem and update procedures to ensure that the problem does not recur. The City has received the signed amendments from both borrowers and will be recording them with the County as required.

**SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**Financial Statement Prior Year Findings**

There was no prior year Financial Statement Finding reported.

**Federal Award Prior Year Findings and Questioned Costs**

There were no prior year Federal Award Findings and Questioned Costs reported.

**CITY OF SANTA CLARA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2013**

| Federal Grantor/<br>Pass-Through Grantor/Program or Cluster Title                | Federal<br>CFDA<br>Number | Pass-Through<br>Identifying<br>Number | Federal<br>Expenditures   |
|--|---------------------------|---------------------------------------|---------------------------|
| <b>U.S. Department of Housing and Urban Development Direct Programs</b>          |                           |                                       |                           |
| Community Development Block Grant - Entitlement Cluster                          | 14.218                    |                                       | \$1,068,501               |
| Home Investment Partnerships Program   | 14.239                    |                                       | <u>628,450</u>            |
| <b>Total U.S. Department of Housing and Urban Development</b>                    |                           |                                       | <u>1,696,951</u>          |
| <b>U.S. Department of Justice Direct Programs</b>                                |                           |                                       |                           |
| Equitable Sharing Program  | 16.922                    |                                       | 41,504                    |
| Edward Byrne Memorial Justice Assistance Grant Program                           | 16.738                    |                                       | <u>17,202</u>             |
| Subtotal Department of Justice Direct Programs                                   |                           |                                       | <u>58,706</u>             |
| <b>U.S. Department of Justice Pass-Through Programs From:</b>                    |                           |                                       |                           |
| City of San Jose   |                           |                                       |                           |
| Edward Byrne Memorial Justice Assistance Grant Program                           | 16.738                    | 2010-DJ-BX-0349                       | <u>388</u>                |
| Subtotal Department of Justice Pass-Through Programs                             |                           |                                       | <u>388</u>                |
| <b>Total U.S. Department of Justice</b>  |                           |                                       | <u>59,094</u>             |
| <b>U.S. Department of Energy Direct Program</b>                                  |                           |                                       |                           |
| ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)            | 81.128                    |                                       | <u>135,850</u>            |
| <b>Total U.S. Department of Energy</b>   |                           |                                       | <u>135,850</u>            |
| <b>U.S. Department of Transportation Pass-Through Programs From:</b>             |                           |                                       |                           |
| State of California Department of Transportation                                 |                           |                                       |                           |
| Highway Planning and Construction Program  | 20.205                    | STPL-HSR 5019 (027)                   | 726,407                   |
| Highway Planning and Construction Program  | 20.205                    | CML-5019                              | 520,504                   |
| Highway Planning and Construction Program  | 20.205                    | HSIP3-04-017                          | <u>382,679</u>            |
| Subtotal Pass-Through Programs From<br>California Department of Transportation   |                           |                                       | <u>1,629,590</u>          |
| County of Santa Clara Office of the Sheriff                                      |                           |                                       |                           |
| State and Community Highway Safety   | 20.600                    | AL0456                                | <u>6,231</u>              |
| <b>Total U.S. Department of Transportation</b>                                   |                           |                                       | <u>1,635,821</u>          |
| <b>U.S. Institute of Museum and Library Services Pass-Through Programs From:</b> |                           |                                       |                           |
| State of California State Library  |                           |                                       |                           |
| Grants to State  | 45.310                    | LSTA40-7980                           | 27,938                    |
| Grants to State  | 45.310                    | LSTA40-8026                           | 1,314                     |
| Grants to State  | 45.310                    | LSTA40-8041                           | 2,074                     |
| Grants to State  | 45.310                    | LSTA40-8182                           | <u>31,720</u>             |
| <b>Total U.S. Institute of Museum and Library Services</b>                       |                           |                                       | <u>63,046</u>             |
| <b>U.S. Department of Homeland Security Pass-Through Programs From:</b>          |                           |                                       |                           |
| California Task Force 3 Urban Search and Rescue                                  |                           |                                       |                           |
| National Urban Search and Rescue Response System                                 | 97.025                    | CA-TF3                                | 7,250                     |
| County of Santa Clara Office of Emergency Services                               |                           |                                       |                           |
| Community Emergency Response Teams   | 97.054                    | FY05 EMPG                             | 3,951                     |
| Homeland Security Grant Programs   | 97.073                    | SHSP FY10                             | <u>46,056</u>             |
| Subtotal Passed-Through County of Santa Clara<br>Office of Emergency Services    |                           |                                       | <u>50,007</u>             |
| <b>Total U.S. Department of Homeland Security</b>                                |                           |                                       | <u>57,257</u>             |
| <b>Total Expenditures of Federal Awards</b>                                      |                           |                                       | <u><u>\$3,648,019</u></u> |

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF SANTA CLARA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2013

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Santa Clara (City), California and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

NOTE 4 - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

| <u>CFDA<br/>Number</u> | <u>Program Name</u>                 | <u>Amount<br/>Provided to<br/>Subrecipients</u> |
|------------------------|-------------------------------------|---|
| 14.218                 | Community Development Block Grant   | \$145,281                                       |
| 14.239                 | Home Investment Partnership Program | 55,415  |
|                        |                                     | <u>\$200,696</u>                                |

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**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members of the  
City Council of the City of Santa Clara, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Santa Clara (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2013. Our report included an emphasis of a matter paragraph disclosing the implementation of new accounting principles and redevelopment dissolution.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

***City's Response to Findings***

City's response to the findings identified in our audit are described in our separately issued Memorandum on Internal Control dated November 5, 2013 which is an integral part of our audits and should be read in conjunction with this report. City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mare & Associates*

Pleasant Hill, California  
November 5, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Honorable Mayor and Members of the  
City Council of the City of Santa Clara, California

***Report on Compliance for Each Major Federal Program***

We have audited City of Santa Clara's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item **SA2013-01**. Our opinion on the major federal program is not modified with respect to the matter.

### ***City's Response to Findings***

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control over Compliance***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item **SA2013-01**, that we consider to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133***

We have audited the basic financial statements of the City as of and for the year ended June 30, 2013, and have issued our report thereon dated November 5, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*More & Associates*

Pleasant Hill, California  
November 27, 2013

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